



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

**UNITED DENTAL CARE OF UTAH, INC.**

of

Salt Lake City, Utah

as of

December 31, 2017



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April 5, 2019

Honorable Todd E. Kiser, Commissioner  
Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of December 31, 2017, has been made of the financial condition and business affairs of:

United Dental Care of Utah, Inc.  
Salt Lake City, Utah

hereinafter referred to in this report as the "Organization" and the following report of examination is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last financial examination of the Organization was as of December 31, 2012. The current examination is a full scope examination covering the period from January 1, 2013 through December 31, 2017, including any material transactions or events occurring subsequent to the examination date and noted during the course of the examination.

We conducted our examination in accordance with the risk-focused examination approach as prescribed by the National Association of Insurance Commissioners *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition of the Organization and its holding company system. In addition, the purpose of the examination is to assess corporate governance, identify current and prospective risks that could cause the Organization's surplus to be materially misstated, and evaluate controls and procedures used to mitigate those risks. The examination also includes assessing the principles used and significant estimates made by management, as well as evaluating management's compliance with Statutory Accounting Principles and annual statement instructions. The examination, however, does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination, an adjustment was identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report. The examination was conducted by representatives of the Utah Insurance Department (Department).

Workpapers of the Organization's independent auditors, Deloitte & Touche, LLP, were reviewed and relied upon whenever possible and applicable to assist in the completion of examination procedures.

## **SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

1. Utah Code § 31A-5-407(1) and 16-10a-803(1) requires a board of directors to consist of a minimum of three individuals.

The Organization was out of compliance from April 5, 2017 through June 28, 2017.

2. The Organization's custodial agreements are required to be in compliance with Utah Admin. Code R590-178.

During the examination fieldwork, the Organization was in process of bringing the agreements to be in compliance with R590-178.

## **HISTORY OF THE ORGANIZATION**

### General

Up until February 29, 2016, the Organization was a wholly owned subsidiary of Union Security Insurance Company, which is a wholly owned subsidiary of Interfinancial Inc., which is a wholly owned subsidiary of Assurant, Inc. (AIZ). On March 1, 2016, after receiving all required regulatory approvals, Sun Life Assurance Company of Canada (SLOC) acquired substantially all of the U.S. employee group benefits business of AIZ, including all of the issued and outstanding stock of the Organization.

The ultimate parent of the holding company is Sun Life Financial Inc. (SLF), a corporation registered with the Securities Exchange Commission. SLF and its subsidiaries are collectively referred to herein as "Sun Life Financial."

The Organization is a stock insurance entity licensed and operated only in the state of Utah.

### Dividends and Capital Contributions

The Organization neither declared nor paid shareholder dividends during this examination period.

The Organization did not receive any capital contributions during this examination period.

### Mergers and Acquisitions

The Organization was acquired by SLOC effective March 1, 2016 (see General history section above).

## **MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE**

### **Board of Directors**

The Organization's bylaws state that the number of directors shall be no less than three.

The following persons served as directors of the Organization as of December 31, 2017:

| <b>Name and Location</b>                 | <b>Primary Occupation</b>   |
|--|---|
| Stacia N. Almquist<br>Shawnee, Kansas    | VP, Dental and Vision<br>Sun Life Financial, U.S.                           |
| Amy J. Goerke *<br>Kansas City, Missouri | AVP, Group and Stop Loss Accounting<br>Sun Life Financial, U.S.             |
| Corinne G. Hanson<br>Terrell, Texas      | Assoc. Dir, Dental & Vision Quality Improvement<br>Sun Life Financial, U.S. |

\* James Barnett retired April 5, 2017 & Amy J. Goerke was appointed on June 28, 2017.

### **Officers**

The following persons served as officers of the Organization as of December 31, 2017:

| <b>Name</b>          | <b>Title</b>      |
|----------------------|-------------------|
| Stacia N. Almquist   | President         |
| Amy J. Goerke        | Treasurer         |
| Colleen L. Kallas ** | Secretary         |
| Eric S. Vandenberg   | Appointed Actuary |

\*\* Colleen L. Callas replaced Kerri R. Ansello as Secretary on June 28, 2017.  
Kerri R. Ansello replaced Kenneth D. Bowen as Secretary on March 1, 2016.

### **Committees**

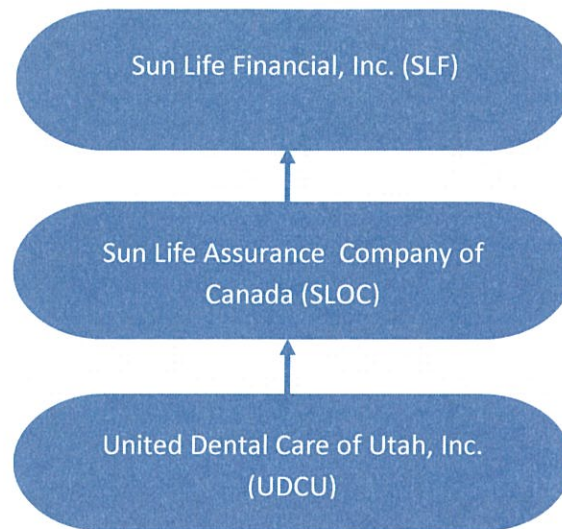
The full board of directors acts as the Audit Committee. There is no other committee at the Organization level.

### **Holding Company**

The Organization is part of a holding company system as defined in Utah Code § 31A-16. The ultimate controlling entity of the holding company is SLF. There are numerous companies within the holding company system, which were not included in the organizational chart below.

### Holding Company Organizational Chart

The organizational chart below reflects the direct ownership of the Organization:



The Organization has no employees, but is operated as part of the Dental and Vision division of SLOC, which has primary management and administrative duties handled by various departments out of Kansas City, MO or Wellesley, MA.

### Transactions and Agreements with Affiliates

The following were the most significant affiliated agreements and transactions in place as of the examination date, December 31, 2017:

1. On March 1, 2016, the Organization entered into an Administrative Services Agreement with SLOC. According to the terms of the Agreement, SLOC will provide all operational, administrative and management services reasonably necessary to transact business, including managerial, legal, financial, actuarial, underwriting, accounting, human resources, employee benefit administration, data network telecommunications, marketing advertising, community affairs, public relations, communications, billing, banking, membership, claims adjudication, customer service, reporting, regulatory compliance, mail, and information technology services. In addition, SLOC will provide all equipment, materials, office space, and general supplies. The Organization shall pay SLOC its proportionate share of the cost, as well as its proportional share of general overhead expenses, according to a system-wide cost allocation methodology and in accordance with generally accepted cost accounting principles. All direct and indirect expenses incurred will be reconciled monthly and balances settled within 30 days from the written receipt of the statement.
2. The Organization entered into an Investment Advisory Agreement with Sun Capital Advisers, LLC, in which Sun Capital Advisers, LLC will act as an

investment advisor for the Organization. All direct and allocable expenses incurred, plus a reasonable charge for overhead that is agreed upon by both parties, will be charged to the Organization with payment remitted within 30 days. Due to the nature of the investments held, there were no fees charged under this agreement during 2017.

## **TERRITORY AND PLAN OF OPERATION**

The Organization is licensed in Utah as a limited health plan organization and serves 1,681 members, providing prepaid dental services to members through contracted independent dental providers. The Organization's dental products are distributed primarily through independent agents which offer coverage with complementary affiliated insurance products.

## **REINSURANCE**

### Assumed

The Organization did not have any assumed reinsurance during the examination period.

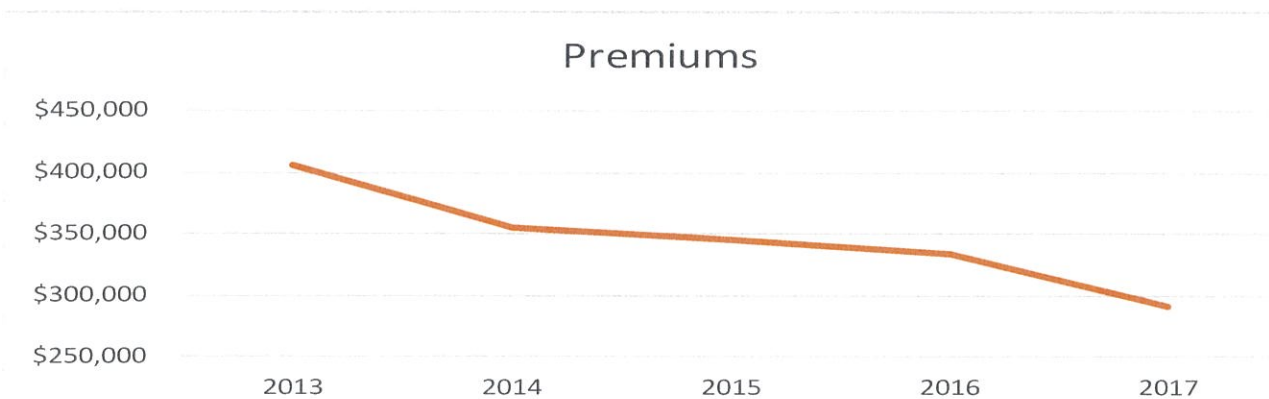
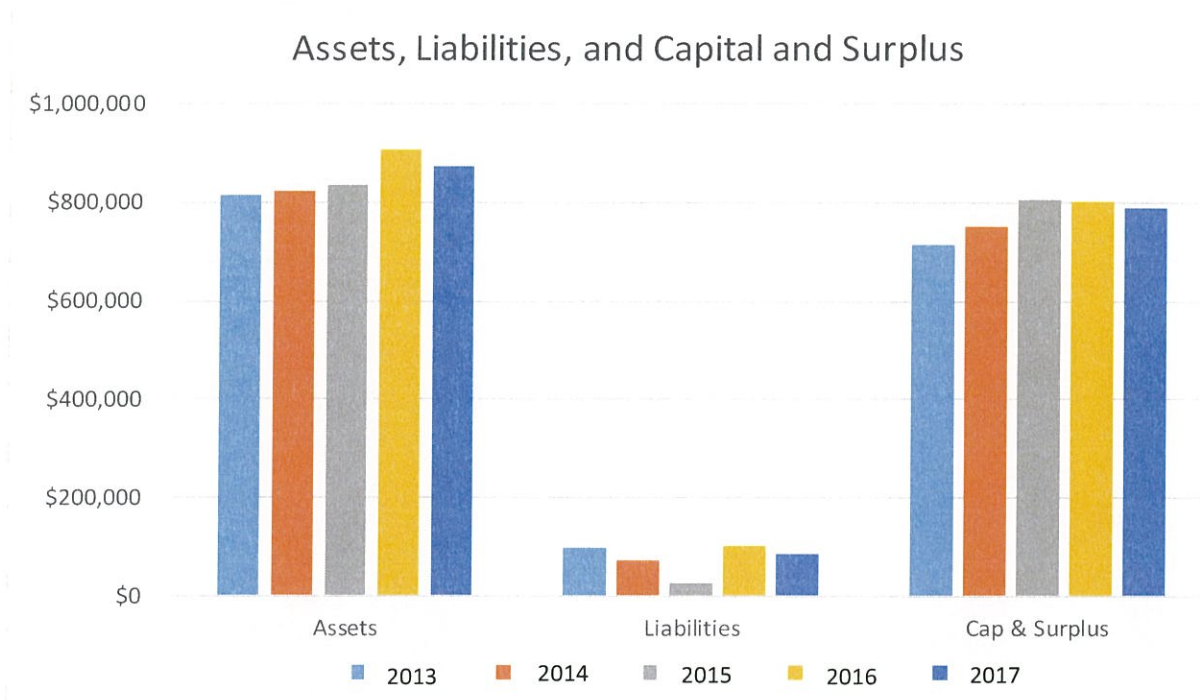
### Ceded

The Organization did not have any ceded reinsurance during the examination period.

## **GROWTH OF ORGANIZATION**

The Organization reported an increase in its Capital & Surplus from \$714,743 to \$786,790 from year-end 2013 to 2017, respectively. However, revenues decreased from 2013 to 2017 due to a decrease of associated member months.

The following graphs reflect the Organization's financial condition for the examination period:



Sources: 2013-2017 Annual Statements

## FINANCIAL STATEMENTS

The following financial statements are based on the statutory annual statement filed by the Organization with the Department and present the financial condition of the Organization for the period ending December 31, 2017. The accompanying comments (if any) on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.



UNITED DENTAL CARE OF UTAH, INC.  
ASSETS, LIABILITIES, CAPITAL AND SURPLUS  
as of December 31, 2017

|   | Net Admitted<br>Assets |
|---|------------------------|
| ASSETS  |                        |
| Bonds   | \$ 50,044              |
| Cash, cash equivalents and short-term investments                       | 801,849                |
| Net investment income due and accrued                                   | 440                    |
| Uncollected premiums and agents' balances in the course of collection   | 1,271                  |
| Current federal and foreign income tax recoverable and interest thereon | 10,996                 |
| Net deferred tax asset  | 4,774                  |
| Receivables from parent, subsidiaries and affiliates                    | 2,412                  |
| Total Assets  | <u>\$ 871,786</u>      |
| LIABILITIES   |                        |
| Claims unpaid   | \$ 3,150               |
| Unpaid claims adjustment expenses                                       | 49                     |
| Premiums received in advance  | 197                    |
| General expenses due or accrued   | 80,940                 |
| Aggregate write-ins for other liabilities                               | 660                    |
| Total Liabilities   | <u>84,996</u>          |
| CAPITAL AND SURPLUS   |                        |
| Surplus for ACA Section 9010 Fee  | 1,457                  |
| Common capital stock  | 10,000                 |
| Gross paid in and contributed surplus                                   | 361,487                |
| Unassigned surplus funds  | 413,846                |
| Total Capital and Surplus   | <u>786,790</u>         |
| Total Liabilities, Capital and Surplus                                  | <u>\$ 871,786</u>      |

UNITED DENTAL CARE OF UTAH, INC.  
STATEMENT OF REVENUE AND EXPENSES  
for the Year Ended December 31, 2017

REVENUE:

|                    |                |
|--------------------|----------------|
| Net premium income | \$ 291,908     |
| Total Revenue      | <u>291,908</u> |

HOSPITAL AND MEDICAL EXPENSES:

|                             |                |
|-----------------------------|----------------|
| Other professional services | <u>138,772</u> |
| Total Hospital and Medical  | <u>138,772</u> |

GENERAL AND ADMINISTRATIVE EXPENSES:

|                                 |                    |
|---------------------------------|--------------------|
| Claims adjustment expenses      | 2,994              |
| General administrative expenses | <u>171,357</u>     |
| Total underwriting deductions   | <u>313,123</u>     |
| Net underwriting loss           | <u>(21,215)</u>    |
| Net investment income earned    | <u>236</u>         |
| Net investment gain             | <u>236</u>         |
| Net Income (Loss)               | <u>\$ (20,979)</u> |

UNITED DENTAL CARE OF UTAH, INC.  
RECONCILIATION OF CAPITAL AND SURPLUS  
2013 through 2017

|  | 2013                     | 2014                     | 2015                     | 2016                     | 2017                     |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Capital and Surplus, December 31, prior year   | <u>\$ 671,104</u>        | <u>\$ 714,473</u>        | <u>\$ 751,162</u>        | <u>\$ 804,364</u>        | <u>\$ 802,090</u>        |
| Net income / (loss)                            | 68,134                   | 35,265                   | 51,899                   | (2,501)                  | (20,979)                 |
| Change in net deferred income tax              | (26,513)                 | (108)                    | 73                       | 5,808                    | 1,465                    |
| Change in nonadmitted assets                   | <u>1,748</u>             | <u>1,532</u>             | <u>1,230</u>             | <u>(5,581)</u>           | <u>4,214</u>             |
| Net change in Capital and Surplus for the year | <u>43,369</u>            | <u>36,689</u>            | <u>53,202</u>            | <u>(2,274)</u>           | <u>(15,300)</u>          |
| Capital and Surplus, December 31, current year | <u><u>\$ 714,473</u></u> | <u><u>\$ 751,162</u></u> | <u><u>\$ 804,364</u></u> | <u><u>\$ 802,090</u></u> | <u><u>\$ 786,790</u></u> |

\* Per the regulatory financial statements filed with the Utah Insurance Department

## **ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS**

No financial adjustments were made to surplus as a result of the examination.

## **COMMENTS ON FINANCIAL STATEMENT ITEMS**

The Organization's Capital and Surplus in the amount of \$786,790 was determined to be the same as that reported in the Organization's annual statement as of December 31, 2017. The capital and surplus significantly exceeded the authorized control level risk-based capital.

## **SUBSEQUENT EVENTS**

There have been no significant subsequent events for inclusion in this report.

## **ACKNOWLEDGEMENT**

Malis Rasmussen, MSA, CFE, SPIR, Deputy Chief Examiner, Utah Insurance Department, supervised the examination. She joins the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Organization.

Respectfully Submitted,



Michael J. Porter, AFE, APIR  
Examiner-in-Charge  
Financial Examiner  
Utah Insurance Department